The Outlook: Sept. 14, 2019

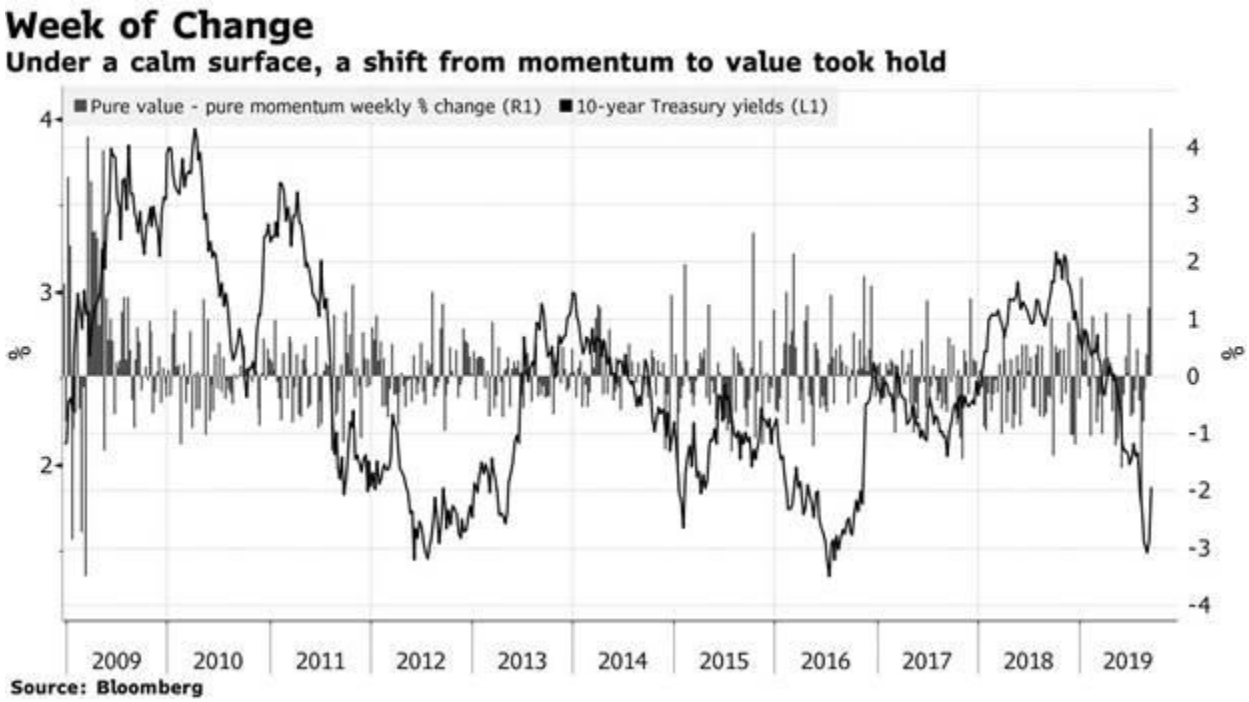
Living on the same planet?

We all notice, eventually, the astonishing gulf which exists between different people's opinions about how the world works. "Are we living on the same planet?" probably pops into everyone's head quite a bit, when they come face to face with a seemingly reasonable person's seemingly upside-down view of how things work in some important area. These face-to-face encounters might happen more often in the investment world than anywhere else . . . except for the political world, of course, where discovering minds from another planet happens every day of the week to everyone, no matter what their point of view.

The end of last week brought more than one "Living on another planet?" moments to Outlook. They each told us something useful. Let's glance at one of them, today.

"Souring Bets on Apocalypse Were at the Center of Quant Stock Storm!"

That was a headline from Bloomberg.com—a news and information service focused on every tiny corner of the investment world. If any of us finds that headline incomprehensible, we should congratulate ourselves upon having normal minds which we mostly direct toward normal, sensible subjects. And if we were inclined to risk our normal minds and pursue the tortured, jargon-filled story under the headline, we'd quickly have run into the chart below—which makes us flinch and look away by sheer reflex, like a car accident or a train wreck.



The essence of the story was that a lot of prestigious hedge-fund speculators took their lumps last week (that is, their clients took the lumps) because recent news has made the "Recession Is Upon Us!" nightmare look a little less believable. Their "momentum trades" (which means they've been buying whatever's been going up) suddenly plunged, and "value" stocks (like Outlook's) suddenly did well. Also,

the “Inverted Yield Curve” nightmare from about 10 days ago has vanished, as longer Treasury bonds fell in price (rising in yield) despite the seeming tidal wave of conviction—among those hedge fund gurus and many others—that the Inverted Yield Curve never fails, in the recession-predicting business. (The general idea was that longer interest rates must certainly fall, in a recession, with everyone suddenly too weak or cautious to borrow money—among other reasons.)

If that chart looks obscure, it was nothing next to the quotations from eminent authorities in Bloomberg’s story—but we won’t torture ourselves by exploring them. What was really useful, in the story, was a list of things which have been bid up in price by those well-funded speculators, in their eternal quest to, well, own anything as long as it answers “Yes!” to their deepest bottom-line question: “Is it going up, at this moment?” So they’ve been buying European bonds at minus 1% yields (driving them toward minus-2% yields); US utility, real-estate and consumer-goods stocks (because everyone knows that’s what you buy in a recession); and they’ve been shorting “value” stocks (meaning strong companies priced at bargains) like Caterpillar, Cummins, Freeport, Micron and Conoco, among lots of others.

We’ve remarked once or twice that these varied gurus are not dumb or foolish. They mostly understand those value stocks and the underlying companies; and they would mostly agree they’ll do very well indeed . . . eventually. But “eventually” is not part of their business plans. “Right now!” is in there; and so is “Up!” They are investing for clients who think they can be “Up!” (a lot) almost all the time . . . or who want to be “up all the time” so badly that they’ve avoided thinking altogether.

It is always startling when we grasp how many people in the investment world fit that description.

And so we come, finally, to how the market world actually works, and whether there is room for more than one planet, in legitimate ways of looking at that world. Outlook’s answer won’t surprise anyone: “No, there’s only one right way to look at the market, and the investment world.” It is a real world, dealing in real things: real problems, real achievements and real failures. It’s like track-and-field, in the sports world; rather than figure skating, for example. In the latter, a panel of judges each gets to decide which planet to see things from, and which score feels most “right” in his or her mind. In the former, it’s exceedingly hard, cold . . . and indisputable: who got to the line first, who jumped higher, who threw farther. The stopwatch and tape measure reveal those facts, and there is no room whatsoever for differing perspectives or interpretations. The investment world’s equivalent to the stopwatch is hard, cold cash. Eventually, it will be produced and given back to shareholders, by companies going all-out to succeed . . . or it won’t.

That fact means that the mighty crowd of speculators who, like the hedge-fund kings in Bloomberg’s story, invest their clients’ money based on “momentum” (ignoring what happens with “cash” because it’ll take too long to wait and find out) are doing only one thing: trying to outguess each other and the majority of the crowd, and do the outguessing very fast indeed . . . every day. As jargon-filled as Bloomberg’s “Souring Apocalypse Quant Storm!” story was, that mind-set was perfectly clear. They are indeed living on another planet, when they think they can keep that up without getting their heads handed to them, eventually—which was the news in the Bloomberg story, after all.

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